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Stock Futures Discount Lowest Since '07 as Credit Freeze Fades

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By Alexis Xydias



June 19 (Bloomberg) -- Futures traders are demanding the smallest discounts to speculate on European stocks since June 2007 as equities rally and financial markets recover from last year's credit seizure.

Markdowns that traders require to exchange the current Dow Jones Euro Stoxx 50 Index **futures contract**, which expires today, for one that matures in three months was 2.63 index points as of June 17, according to estimates by Frankfurt-based Deutsche Bank AG. The discount averaged 8 points in the two weeks leading up to the December expiration, the

widest difference since the data began in March 2006.

The narrowing gap for the so-called rollover shows traders are growing less concerned about financial markets freezing again, like they did when Lehman Brothers Holdings Inc. collapsed in September. It also suggests that investors are growing less pessimistic about stocks in the benchmark index for the euro region's **biggest companies**.

"The last remnants of the panic are vanishing," said **Gunnar Stangl**, the head of portfolio strategy at Commerzbank AG in Frankfurt. "A normally operating futures market is yet another sign confirming that the panic is over."

Rollover discounts compare the spread between the market values of current and approaching futures contracts and their so-called theoretical fair values.

The contract on the Euro Stoxx 50 that **expires in September** traded at 2,406 at 10:48 p.m. in Frankfurt yesterday, compared with its 2,410.95 **theoretical value**, which takes into account the index price, expected dividend payments, days to expiration and interest rates. The contract that expires today traded at 2,412 compared with a fair value of 2,414.52.

Futures Trading

Futures trading plunged as the Euro Stoxx 50 **tumbled** from its bull-market high on July 16, 2007, until March 9 of this year and wiped out almost 1.6 trillion euros (\$2.2 trillion) in market value. The volume of Euro Stoxx 50 futures fell 63 percent in January from a year earlier to 607 billion euros, the steepest decline this decade, according to data from Frankfurt-based Eurex. In March, open interest had the biggest drop in at least six years, tumbling 40 percent to a four-year low of 48.2 billion euros, the data show.

There are currently 2.8 million Euro Stoxx 50 futures traded on Eurex, Europe's largest derivatives exchange, with a notional value of 68 billion euros of shares, according to the exchange's Web site.

Diminishing Discounts

Futures discounts are diminishing along with the cost of borrowing in dollars between banks and the price of protecting European corporate debt from default.

The Libor-OIS spread, a measure of the willingness of banks to lend to each other, has dropped to 37 basis points from 87 before New York-based Lehman's collapse, the biggest bankruptcy in

history. Credit-default swaps on the Markit iTraxx Europe index of 125 companies with investment-grade ratings slid as low as 101.75 basis points this month, compared with 102 on Sept. 12, according to CMA DataVision.

The **Euro Stoxx 50** is still down 26 percent since the day before the Lehman debacle, even after a three-month, 33 percent rebound. The **VStoxx Index**, which measures the cost of using options as insurance against declines in the index, has dropped to 32.44 from a record 87.51 in October.

"Seeing Euro Stoxx 50 roll costs revert closer towards a longer-term average is somewhat of a representation of an overall normalization of the market, which would be in line with the decline in volatility and the rebound in equities we had in the last three months." **Pamela Finelli**, an equity derivatives strategist at Deutsche Bank in London, said in an interview.

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